

Role of e-Governance in Nigeria's Tax System: Strategy Perspective to Enhancing Compliance

¹A. Ojeka Stephen, ²Ibidunni Ayodotun, ¹F.O. Iyoha, ³K. Ayo Charles and ⁴Gberevbie Daniel

¹Department of Accounting,

²Department of Business Management,

College of Business and Social Science, Covenant University, Ota, Ogun State, Nigeria

³Department of Computer and Information Sciences, Covenant University,

Ota, Ogun State, Nigeria

⁴Political Science and International Relations,

College of Leadership Development Studies, Ota, Ogun State, Nigeria Nigeria

Abstract: Nigeria like most other African countries is facing a lot of challenges in terms dwindling revenue base. Currently, Nigeria derives about 90% of her revenue from oil proceeds. However, considering the sharp drop in the price of crude oil in the international market, there is an urgent need for the government to expand its tax net in order to capture entities that hitherto not filing their tax returns whether deliberately or as a result of bottlenecks. Some of the government agencies have adopted the e-Governance platform by means of e-Payment to encourage citizens to pay their taxes and to eradicate tensions generated in payment process. However, whether this initiative has led to an increase in tax returns or not is subject to empirical review. This study therefore examined the reactions of tax payers to the e-Payment system, the challenges it has posed and to find out if there is any provision for taxpayers to make input into the tax system in the country with a view to improving on the revenue base of the government through enhanced tax collection system, particularly in the area of suggestions from the citizens. To achieve these objectives, the study analyzed the primary and secondary data obtained from the websites of the inland revenue service at both the federal and state levels of the Nigerian federation and from respondents through the administration of questionnaire to see how the citizens are encouraged or not to pay their taxes and the extent to which the government at the different levels have benefited from the e-Payment initiative compared to the usual face to face manual tax collection system that has been in existence before now. Therefore, using data gathered from relevant agencies within and outside Nigeria, this study focused on examining issues of promoting awareness of the tax e-Filing platform to tax payers, propose policy contents that could instigate compliance to tax systems and identify strategic areas that enhance the role of e-Governance on tax compliance. Recommendations were made about the effective implementation of e-Governance and tax compliance in Nigeria.

Key words: e-Governance, e-Payment, revenue, tax compliance, tax payers, Nigeria

INTRODUCTION

The Nigerian tax system is structured as a revenue yielding economic development and growth mechanism implemented by government across the federal, state and local levels. From a global perspective, taxation has been recognized as a major means of income generation, yielding improved standards of living (Federal Ministry of Finance, 2012). Despite this fact, Nigeria's tax system still suffers non-compliance from individuals and corporate organizations. According to Leyira factors impeding the effectiveness of the nation's tax system include: poor

administration of tax policies, inability of relevant agencies to prioritize tax efforts, multiplicity of tax and non-availability of tax statistics among others. Not with standing these factors, the government recognizes the need to maintain a paradigm shift from its dependence on oil as a major source of revenue to tax based incomes (Federal Inland Revenue Service, 2012). But the current level of compliance from individuals and organizations may strongly pose against its intended objectives. In a sense, this may be due to inconveniences attached to traditional means where taxpayers go to tax agencies to make payments as opposed to the emerging electronic

means of tax payment (often referred to as tax e-Filing and payment). According to Azmi and Kamarulzaman (2010), the advantages accompanying e-Payments of taxes extends to both the tax authorities and tax payers. Among them include: ease-of-use to the tax payers reduction in calculation errors on tax return form minimization of workload on tax authorities, reduced cost of processing, storage and handling of tax returns and so on. In 2013, the Federal Internal Revenue Services introduced the Integrated Tax Administration System (ITAS) as a means of tax e-Filing (Obeta, 2014). Despite this, African Development Bank Group revealed that Nigeria is categorized amongst developing countries with the lowest tax compliance. More disturbing is the fact that only about 30% of corporate firms are tax compliant. According to World Bank Group Nigeria is amongst the last three of One hundred and eighty-nine nations surveyed for ease of paying taxes. Thus, there is need to research into issues of promoting awareness of the tax e-Filing platform to tax payers, propose policy contents that could instigate compliance to tax systems and identify strategic areas that enhance the role of e-Governance on tax compliance. Therefore, this research is focused on examining the role of e-Filing system on tax compliance in Nigeria.

AN OVERVIEW OF THE NIGERIAN TAX SYSTEM

Taxation in Nigeria, like most other countries is structured around a tripod system consisting of tax policy, law and administration. The tax policy is usually aimed at promoting the wellbeing of nationals of a state while tax laws define the legal implications of the tax system. Tax administration on the other hand involves the implementation of taxes by designated authorities. In line with this, the Federal Ministry of Finance stated the expectation of Nigeria's tax system as "to contribute to the well-being of all Nigerians and taxes which are collected by government should directly impact on the lives of the citizens.

This can be accomplished through proper and judicious utilisation of the revenues collected by government". In line with this, the objectives of the tax policy as outlined in the national tax policy include: to promote fiscal responsibility and accountability; facilitate economic growth and development; provide the government with stable resources for the provision of public goods and services; address inequality in income distribution; provide economic stabilization; pursue fairness and equity; correct market failure and imperfections. The execution of these objectives is based on a practice of fiscal federalism. Fiscal federalism refers to intergovernmental fiscal relations; it suggests

that functions and instruments of governance are decentralized among two or three levels of government (Arowolo, 2011).

ROLE OF TAX IN ECONOMIC DEVELOPMENT AND GROWTH

Taxation is a vital tool to the economic state of a nation as it can determine the country's rate of growth (Myles, 2000). Over one-third of most developed countries' annual revenue is derived from taxes (Carter and Cabreiro, 2011). Comparing tax structures among developing and developed countries, Ramot and Ichihashi (2012) observed that developing countries' tax revenue is largely derived from Corporate Income Tax (CIT) than Personal Income Tax (PIT) but the case is quite opposite with developed countries. One of the possible explanation for such situation could be the extent to which a nation emphasizes income redistribution (Gordon and Li, 2009).

E-GOVERNANCE: A STRATEGY FOR INCREASED TAX COMPLIANCE

The e-Governance is the application of information technology to governmental functions in relation with organizations, citizens and other government agencies (Palvia and Sharma, 2007). It could serve as a platform through which citizens and institutional arms of a country get involved in framing up of laws that guide their common interest and goals. According to Chatfield (2009), e-Governance has been helpful in improving the performance of Japan's national tax agency in two main ways which are: reduced tax administration cost and reduced tax laws compliance cost.

Despite, the importance of tax to economic wellbeing and the functional role of e-Governance to this, researchers have yet pointed out factors that could either enhance or hinder compliance. According to Smith (2011) noted that even though e-Governance could result in efficiency, effectiveness and transparency of public administration, the issue of trustworthiness would yet be one to contend with. Relating with this Dandar *et al.* (2007) opined that taxpayer's trust in tax authorities can be enhanced by simply providing the opportunity for them (taxpayers) to share their views about how they want their taxes to be used. Thus, engaging e-Governance as a means for taxpayers to suggest budgetary allocations could increase their level of tax compliance.

According to OECD (2015) prominent e-Governance strategies adopted by most developed countries include: internet, direct debit, payment kiosk and phone banking. Table 1 depicts important functions which an online tax system should have. The government of Lagos state,

Table 1: Functional content of an online tax system

Functionalitys	Descriptions
Online electronic tax return filing	A means of making it easier for tax payers to file returns and reduce cost of processing returns
Use of prefilled tax returns	Using third party and relevant information already held by the revenue body to prefill taxpayer's tax returns
Online electronic payment services	Increasing use of fully electronic e-Payment services to reduce more costly payment channels
Increased information website	Providing guidance and answers to tax payer's on questions when required
Integrated tax payer accounts/records	Introduction of a tax accounting system that contains overall/full tax position of tax payers
New online applications for tax payers	Providing an increased array of transactions to tax payers and their representatives to help them meet their tax obligations
VAT e-Invoicing	System to support businesses and the revenue body's administration in operation of the VAT
Data capture from Third parties	Automating the capture of third party data that are required for routine tax administration processes
Digital mailbox	Electronically making information available to tax payers
New online applications for tax intermediaries	-
OECD (2015)	

Table 2: Functional benefits of e-TCC

Functional benefits of e-TCC	Benefit to individuals
Identification of taxpayers	Serves as identity card to the holder
Elimination of fake Tax Clearance Certificates (TCC) in circulation	Data integrity
Taxpayer enumeration	Reinforces taxpayer assurance that all payments would be remitted to the government coffers by the various agencies
Attraction of more taxpayers to the tax net	Card is durable and portable
Easy Reconciliation of returns	Provides easy access to taxpayer payment tax history
Total remittance of all collected revenues into government coffers	Eliminates Delay in obtaining TCC
Lagos State Government (LSG, 2016), http://www.lasg-ebc-rcmcom/ebrcm/index-etcc.asp	

Nigeria, operates an e-Tax website which aims at increasing the internally generated revenue of the state. The design of the website is principally patterned towards making tax payment. The functional benefits of the Electronic Tax Clearance Certificate (e-TCC) as it is called are examined in Table 2.

A comparison of the benchmarked contents itemized by OECD about the functional content of an online tax system (Table 1) and the functional content of Nigeria's Lagos state electronic tax clearance certificate system (Table 2) reveal that latter is more of a payment platform than an interactive platform. The essence of e-Governance system in promoting tax compliance is to ensure that citizens are adequately carried along in tax policy design,

legislation and administration. Thus, there is still a need for the website to be designed to achieve more customer (tax payer's) friendly relations.

IMPACT OF TAX E-FILLING AND-PAYMENT SYSTEM IN NIGERIA

Globally, e-Governance is gaining wide spread recognition and adoption to aid ease, transparency and accountability in business and government operations. With respect to taxing, countries such as Malaysia (Ling and Fatt, 2008); India (Rajeswari and Mary, 2014); Mongolia USA (Carter *et al.*, 2011) and so on have been listed among active users of e-Governance for tax filling and payment.

The introduction of Integrated Tax Administration Systems (ITAS) in 2013 brought Nigeria fully into the league of nations that engage e-Governance as a means of taxation. According to KPMG, some benefits of ITAS to tax payers include: file monthly and annual tax returns along with relevant support documentation make payments and obtain copies of payment receipts online, receive alerts on mobile telephones or e-Mail accounts when their tax accounts are credited and so on.

Despite attempts by government to ease the payment and filling of tax, avoidance attitudes of tax payers to the e-Governance platform might not be a peculiar challenge to Nigeria alone. For instance in Malaysia, Azmi *et al.* (2012) reported that tax payer's openness to using the e-Filling system will depend on the extent to which they perceive the system usefulness to them (ADB, 2015). Again, the extent to which they perceive the system to be useful depends on the degree of associated risks and ease of using the system. Applying the principles of Technology Acceptance Model (TAM) most studies have emphasized the need for e-Filling systems to be perceived ease of use and tax service quality (Mustapha and Obid, 2015; Sharma and Yadav, 2011; Azmi and Bee, 2010).

According to African Economic Outlook (2014) the 5 largest tax based economies in African as at 2012 include (South Africa, 98.6; Algeria, 79.5; Nigeria, 75; Libya, 53.7; Angola, USD 50.7 bln.). Of these 5 economies, only South Africa is reported to receive revenue from direct tax activities. Nigeria, Angola, Equatorial Guinea and Libya largely rely on only one tax source. However, this situation seem to be changing since the adoption of tax e-Filling and payment since 2013. Table 3 reveals that after the introduction of e-Payment of taxes, the non-oil sector was more actively involved in payment of taxes (Anonymous, 2015). This fact notwithstanding, there are indications that Nigeria can still gather more revenue from

Table 3: Total tax revenue collection oil and non-oil for 2012-2015

Year/Quarter	Oil revenue (%)	Non-oil revenue (%)
2012		
1st	857.1621 (73.11)	315.3061 (26.89)
2nd	743.9502 (58.71)	523.2790 (41.29)
3rd	798.3226 (58.44)	567.7399 (41.56)
4th	815.8699 (67.88)	385.9929 (32.12)
2013		
1st	802.9410 (66.54)	403.7904 (33.46)
2nd	793.4257 (55.23)	643.0803 (44.77)
3rd	520.4811 (45.03)	635.2472 (54.97)
4th	551.8105 (54.82)	454.8658 (45.18)
2014		
1st	638.0883 (60.40)	418.2858 (39.60)
2nd	639.2683 (43.93)	815.9021 (56.07)
3rd	594.7995 (49.60)	604.4335 (50.40)
4th	581.7913 (57.96)	421.9916 (42.04)
2015		
1st	368.5937 (48.71)	388.1156 (51.29)
2nd	306.1417 (25.77)	881.9831 (74.23)
3rd	325.8656 (33.24)	654.6173 (66.76)

FIRS: Planning, research and statistics department

tax especially taxes drawn from the non-oil sector. Indeed, it is imperative that the government focuses more on such revenue source as the price of oil in the international market continues to drop. Closer examination of Table 3 above shows that between 2012 and the second quarter of 2013, oil revenue was the principal income generator for the Nigerian government. However, dwindling effect between the two revenue generators have occurred since then. Although, the situation suggest that non-oil revenue could be government's major source of income, there will still be a need to promote effective e-Governance as a strategic means of achieving that purpose.

STRATEGIC AREAS OF IMPORTANCE TO TAX e-PAYMENTS IN NIGERIA

Successful application of e-Governance systems on tax compliance require that tax administrators concentrate on putting in place factors and implementing strategic policies that achieve such aim. Lubua (2014) identified that tax administrators much give attention to issues such as awareness level of tax payers to tax laws, integrity of employees of the revenue authority, visitation frequency of tax officers and training needs of both tax officers and tax payers. The operation of e-Tax systems in Nigeria might be handicapped in a near future if the tax law content is not broadened to guide operations regarding e-tax. In line with this, Opara (2014) recommended that Nigeria's tax law should reflect benchmarked taxation principles of e-Tax that can guide individuals, investors and business activities.

Acknowledging that the use of information technology generally in Nigeria is still in its infant stage

tax authorities would necessarily have to ensure that possible security threats relating tax e-Payment are reduced to the bearest minimum. Strategies that minimize counterfeiting and continuously promote the use of electronic means of payment rather than traditional means could help in enhancing public confidence (Okoro and Kigho, 2013). As a helpful hint for building more dependable, transparent and user friendly tax e-Filling systems, Chen *et al.* (2015) revealed that trust in technology, trust in government, trust in e-Governance and prior experience with government services are strong determinants of tax payer's responsiveness to tax e-Filling

CONCLUSION

This study examined the role of e-Governance on tax compliance in Nigeria. It showed that Nigeria, even though it is the largest economy in Africa, depends largely on revenue drawn from one sector: oil. This unhealthy state of nature is likely to reflect in increasing measure in the face of the global breakdown of the international oil markets and prices. As such, government must attend to revenue generation from other means such as taxes. e-Governance as a means of tax compliance in Nigeria was revealed to be a major potential revenue generator when compared to other economies both within and outside African. Therefore, Government and indeed tax administrator's ability to attend to the issues that facilitate e-Governance (such as the tax e-Filling system) would be beneficial to Nigeria's economic growth and development.

Therefore, in the face of growing adoption of e-Governance strategies over the execution of tax policies, legislations and administration, Nigeria has important lessons to learn from a number of other countries. The supposed Integrated Tax Administration System (ITAS) can achieve higher tax revenues for the government and indeed the nation depending on tax administration's ability to build a competence based system which tax payers can trust.

Gaining insight from the Technology Acceptance Model (TAM) theory tax administrators in Nigeria must continuously upgrade the tax e-Filling system to be user friendly. This would be achieved as when tax payers has a positive perceptions towards the system's ease-of-use and usefulness of the system to their tax purposes. It could be that tax avoidance rate will reduce by this means (Armstrong *et al.* 2015).

Drawing experience from advanced nations such as USA, UK, New Zealand and so on, e-Governance strategies that further stimulate citizen's awareness and willingness could be strategically implemented. These

would include more than just setting up online payment platforms especially computer-based to the possibilities of paying taxes and participating in tax issues through telephones (OECD, 2011).

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